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EQUIPMENT DEALERS

1981 COST OF DOING BUSINESS STUDY

ANALYSIS BY THE CENTRAL CLAYTON T. SANDERS

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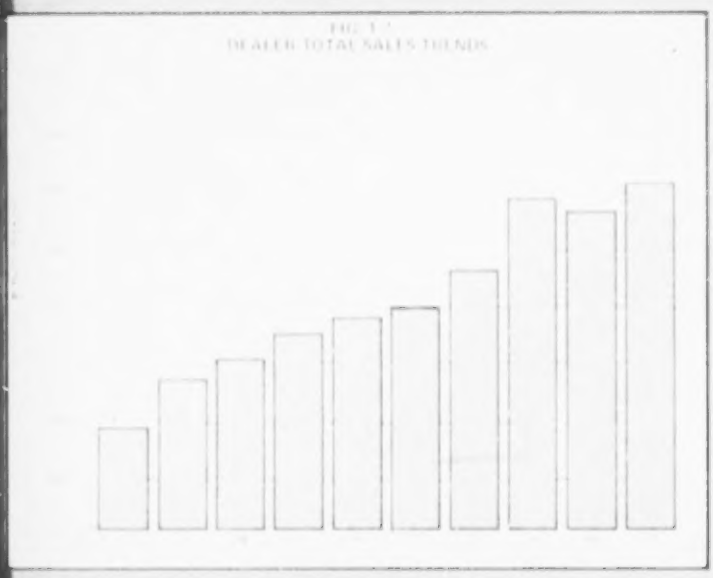
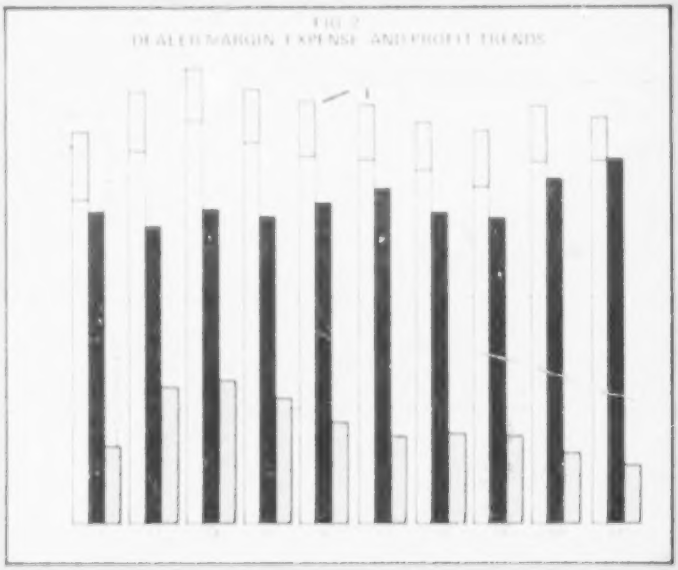
6/82

DEALER BUSINESS TRENDS

(FOR THE PAST 10 YEARS)





(CONT'D PAGE 5)

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SALES/MARGINS/EXPENSES/NET PROFIT/FINANCIAL RATIOS
BALANCE SHEET DATA/EMPLOYEE STUDIES

NATIONAL FARM & POWER EQUIPMENT DEALERS ASSOCIATION
10877 WATSON ROAD • ST. LOUIS, MISSOURI 63127

FOREWORD

As in each year since 1947, special questionnaires were mailed early in the year to approximately 11,000 U.S. and Canadian agricultural and industrial equipment dealers as well as to selected non-member U.S. lawn and garden equipment dealers. Direct mailings of the forms were made from the National Association headquarters in St. Louis and support mailings were made by cooperating affiliated state and regional associations.

The questionnaires conform to all of the widely-used dealer accounting systems and were designed to secure significant information on departmental sales and margins, a breakdown of dealer overhead, and balance sheet and employee data.

Hundreds of responses were received in the mail survey. In addition, most of the dealers currently using association computer accounting systems throughout the U.S. were included. Publication of this study is made possible only through the cooperation of dealers and their bookkeepers who furnished comprehensive departmental operating information and the detailed balance sheet and expense breakdowns. Sincere thanks plus a free copy of this booklet are due those who took time out of busy schedules to compile information for this important project.

Returns were received from dealers in the three geographical regions shown below, in almost exact proportion to the number of members in these regions:

STATES OR PROVINCES IN EACH REGION

EASTERN		CENTRAL		WESTERN	
Alabama	New York	Arkansas	Minnesota	Alberta	New Mexico
Connecticut	North Carolina	Illinois	Mississippi	Arizona	North Dakota
Delaware	Ontario	Indiana	Missouri	California	Oklahoma
Florida	Pennsylvania	Iowa	Ohio	Colorado	Oregon
Georgia	Quebec	Kentucky	Sask-Man	Idaho	South Dakota
Maine	Rhode Island	Louisiana	Tennessee	Kansas	Texas
Maryland	South Carolina	Michigan	Wisconsin	Montana	Utah
Massachusetts	Vermont			Nebraska	Washington
New Hampshire	Virginia			Nevada	Wyoming
New Jersey	West Virginia				

The number of responses by sales volume category were as follows:

Sales Volume	No. of Dealers	% of Total
To $1 Million	277	19
$1 Million to $2 Million	466	32
$2 Million to $3 Million	306	21
Over $3 Million	407	28

The number of returns received from industrial (75) and lawn and garden (21) dealers were insufficient to provide volume group studies as are provided on pages 8 to 13 herein for agricultural dealers.

Operating studies by geographical region for agricultural dealers are shown on page 14. Regional balance sheet information is not included.

Combined total retail sales of dealers responding in the survey were in excess of $4,000,000,000.

Separate studies of agricultural, industrial and lawn and garden dealers are shown on pages 6 and 7. Dealers were classed as industrial or lawn and garden if 50 percent or more of their equipment sales in the year were these classes of goods.

HIGH-PROFIT STUDIES

Returns used in compiling averages of high-profit dealers represent approximately one-fourth of the particular group. To arrive at these figures, the questionnaire returns were first ranked according to percentage of net profit (or loss) to sales, from the highest profit downward. The best one-fourth of the returns in the array were then selected to make these tabulations—a most interesting and valuable part of the Cost of Doing Business Study.

PERCENTAGE CALCULATIONS

All percentages shown in operating studies are in relation to sales. They are computed by dividing the dollars of margin or expense by sales.

In the case of margins, each item is divided by sales of the particular department to arrive at the percentage of margin for the department. Total margin divided by total sales gives the percentage of margin on the composite of all sales.

Percentages shown for expenses are in relation to total sales. Again, the dollar amount for each item is divided by total sales to arrive at the percentage.

Operating percentages are important since they reflect the degree of operating efficiency. These figures are the true test of performance and serve as a sound basis for accurate comparison regardless of sales volume.

Individual dealer financial and operating information is held in strictest confidence at the National Association headquarters. All of the editing and coding of reports are performed "in house" and completely tabulated on NFPEDA's own computer.

1981 COST OF DOING BUSINESS STUDY

(Figures used throughout this text may vary slightly from those quoted in the May issue of Farm & Power Equipment *which were based on preliminary results.)*

The year 1981 proved to be another "rocky" year for farm equipment dealers according to the National Association's Cost of Doing Business Study just completed. Sales are up with inflation, expenses are up with inflation, and profits are down in spite of inflation.

Sales resumed the upward climb, following a brief respite in 1980, increasing from an average of $2.252 million to $2.481 million, or 10.17 percent. See Fig. 1 on the front cover which shows the trend of sales during the past ten years (not adjusted for inflation).

If 10 percent is the approximate rate of inflation, it really means that sales were at a standstill in the past two years for all farm equipment dealers. Also, for those in the equipment business who have watched the declining value of the dollar—or the country's inflation rate—over the decade, it is alarming to consider that today's hefty $2½ million average sales volume represents just over $1/2 million stated in 1972 dollars. And, if you take into account the technology, comfort, etc., added to most equipment over the years, the picture is even worse.

Also, making the headlines in this year's study are expenses. All of the costs incurred in the process of opening the doors of a business—and keeping them open—are necessary operating expenses and have a direct bearing on profit. The lower the expense, the higher the profit. But the year 1981 brought further deterioration by way of skyrocketing operating expenses which increased a whopping 13 percent over 1980. The average expenses of reporting dealers in 1981 were $380 thousand compared to $335.5 thousand in 1980—an increase during the year of $44.5 thousand.

Expenses as a percentage of sales also increased in 1981 over 1980, going from 14.89 percent in 1980 to 15.33 percent in 1981. So, while sales went up, expenses went up even more.

Fig. 2 on the front cover shows the ten-year trend of margins, expenses and profits of farm equipment dealers. Profits have been on the decline since 1974 though holding almost steady in the three years 1977-79.

SALES AND MARGINS

As might be expected when our farmer customer encounters rough going, sales of new equipment represent a smaller portion of total sales of the dealer. Used equipment, parts and service sales tend to increase as the farmer stretches his budget dollar by "making do" with his present equipment, or lower-cost used equipment. New and used equipment combined, however, represented the same portion of the sales dollar as in the year prior at approximately 70 percent.

In a buyer's market, as existed for equipment during 1981, margins tend to slide; and the year was no exception as the percentage margin on total new and used sales dropped to 8.62 percent from the prior year's 9.32 percent. This was a decline of .70 percentage points; and in relation to the prior year, was almost 8 percent lower.

Fig. 3 charts the trend of new and used equipment sales for the past decade (with no allowance being made for inflation).

In figuring margins on equipment sales, real margin results are indicated by the total of new and used sales combined. While some dealers book their sales in a manner to give all the profit to the used sales by slashing the book value of trade-ins, others tend to inventory their trade-ins as close to market as possible and thus allocating more profit to the new equipment. This is to say that margins on new equipment versus used equipment depend on how the sale invoice is written and booked, and how the trade-in is valued at the time for inventory purposes.

In analyzing the Cost of Doing Business margins, the meaningful figure for equipment in 1981 is the "Total New and Used" margin of 8.62 percent which is calculated in a manner which eliminates all the problems associated with bookkeeping.

Margins on parts and service continued to hold up for dealers in 1981. There was a slight deterioration in parts margins which was offset by improvement in margins in the service shop.

With regard to leasing and renting of equipment, it is apparent from an examination of the individual reports received from dealers that much of this operation is booked through the sales accounts for equipment, or at least is reported that way in the survey. Some dealers reported very extensive leasing operations; but on the average this item amounted to only $21,000 in sales in 1981 and margin of $7,909 due to the fact that so many reported zero.

Fig. 4 shows the trend of parts, service and other line sales over the decade. Fig. 5 and Fig. 6 charts the trend of margin percentages on equipment and on parts, service and other sales.

EXPENSES

The bad news on expenses, as pointed out earlier, is that they have increased 13 percent over the year prior, at which time they were already too high for dealers to handle.

The largest category of expense is payroll which makes up 35 percent of total expense. This item in the dealer's cost of doing business is comprised of compensation paid to owners, salesmen, partsmen and office. (For comparison purposes, other salaries such as mechanics and warehouse servicemen are charged to appropriate cost of sales accounts. Also for comparison, the owner's compensation for work performed should be charged as salary, and his compensation for risk should be the increases in net worth stemming from profits of the dealership.)

As a percentage of total sales, salaries have declined slightly from 1980 to 1981, going from 5.50 percent to 5.39 percent. This would indicate that dealership personnel have an increased workload and have shouldered efficiently this slightly greater burden.

In case anyone is wondering what effect high interest rates have had on dealerships, it can be reported that this factor is no longer mere newspaper headlines. High interest rates have hit the floor-planning and borrowing dealer and have assumed major proportions in dealership overhead. In 1979, interest charges were a mere .76 percent of sales, but still represented an expenditure of nearly $18,000 for the average dealer in that year. In 1980, the increase was .32 percentage points to a total of 1.08 percent of sales and $24,385. In 1981, the further increase has been .44 percentage points to a reading of 1.53 percent of sales and dollar expenditure of $37,996.

In examining the average dealer balance sheet, the reason for the higher interest charges becomes obvious. Equipment inventories have burgeoned in the dealership, and have slowed in times-turn. What was appealing free floor plan

financing has turned into a nightmare of high interest loans-come-due for too many dealers.

Inventories of new and used equipment have increased from $628,498 to $697,898, and then to $890,304 in the years 1979, 1980, 1981. Turnover of new equipment inventories has been 2.36x, 1.92x and 1.62x respectively in those years, indicating the costly slower movement of goods in a sluggish market.

Occupancy expense is a major item in dealership overhead, representing 1.42 percent of sales in 1981. This is approximately the same ratio as in 1980. In the annual Cost of Doing Business survey, participating dealers are asked to report real estate rent expense plus building and grounds maintenance and repairs; or for real estate owned, to report building and grounds maintenance and repair, real estate mortgage interest, real estate taxes and insurance, and building depreciation—which as a sum total is the equivalent of rent.

ASSETS, LIABILITIES AND EQUITY

The level of cash and receivables on dealers' books in 1981 continues the trend of the recent past for the average dealer. The most significant changes in the balance sheet lie in inventories and floor plan indebtedness of the dealer, and a decline in ownership equity. Ownership equity, which represents the remainder of assets of the dealership after subtracting debt, has declined from 29.29 to 27.22 and to 24.60 percent in the three years 1979, 1980 and 1981 respectively.

Dealers' ability to meet current obligations is measured by the "Current Ratio" which is the ratio of, roughly, cash and receivables to current debt. A ratio of 2-to-1 has generally been viewed as satisfactory for most businesses over the years; and this past year for the farm equipment dealer, the ratio stands at 1.32-to-1. Heavy floor plan indebtedness plays a large role in this scene.

At the end of 1979, the current ratio stood at 1.62-to-1.

GEOGRAPHIC AREAS

Following is a list of local associations from which were received twenty-five or more dealer responses to the Cost of Doing Business Survey, showing the average total sales and net profit percentage for each:

Association	Average Sales (Millions)	Profit % of Sales
Carolinas	$1.728	2.32%
Deep South	3.360	3.94
Illinois	2.916	1.69
Indiana	2.159	2.04
Iowa	2.481	1.06
Michigan	1.829	1.56
Mid-South	2.488	2.00
Minn-South Dakota	2.393	1.55
Nebraska	3.015	2.07
New York	2.077	1.60
North Dakota	2.995	3.69
Ohio	1.782	1.97
Pacific Northwest	3.416	2.02
Pennsylvania	1.804	2.71
Southwest (Texas-N. Mexico)	2.506	3.43
Virginia	1.453	4.62
Western (Kansas-Missouri)	2.010	2.65
Wisconsin	2.302	1.18
Far West (California-Arizona-Nevada)	4.254	3.88
Ontario	3.109	2.34

VOLUME SIZE

According to the "bottom line" results of the 1980 study, which was conducted a year ago, the percentage of profit earned by dealers was almost in proportion to the volume size—the bigger the better.

However, in 1981, that pattern does not exist—exactly. Small dealers with sales volume of less than $1 million showed a profit of .02 percent of sales and their next larger cousins, having between $1 million and $2 million sales, showed a profit of 1.86 percent. The break in the pattern is found in the next higher sales group, between $2 million and $3 million, which produced a profit of 1.45 percent of sales. The largest dealers—those doing over $3 million sales—had the highest profit ratio, namely 2.89 percent of sales.

On the balance sheet side, smaller dealers had the highest percentage of ownership equity in their businesses which stood at 25.75 percent of Total Assets at the end of 1981. Other volume groups, as cited above, were 24.23 percent, 23.87 percent and 24.89 percent respectively.

INDUSTRIAL DEALER OPERATIONS

Response to the current survey by industrial dealers was approximately 25 percent below that of a year ago, which may be indicative of the economic climate in the construction industry. However, average sales of these dealers were 2.318 million in 1981 and they are still "plus" on the bottom line which amounted to 1.50 percent of sales for the year.

SERVICE SHOP DATA

In the 1981 survey, dealers were asked to report on service shop wages and hourly rates charged for labor. Tabulations of averages by dealer sales volume size will be found on pages 12 and 13.

In analyzing the service shop results, a dealer should calculate for his own business the number of serviceman hours that were paid for in wages during the year. He should then calculate how many were actually sold through billings to customers and billings to warranty and inventories—and how many were unassigned. This is all part of the process of determining whether shop rates are high enough to cover the service shop's share of overhead and produce a profit. This is doubly important in times when equipment sales are slow, as in the year 1981.

Every dealer must view his service shop as a profit center. Only then will he establish the policies and make decisions which will enable the shop to contribute, along with other departments, to the on-going success of the business.

PROFITABLE DEALERSHIPS

The year 1981 was not a good one for dealers. Nevertheless, 74 percent of participating dealers were "on the plus side" for the year. In the year prior, 79 percent of the participating dealers reported profits.

DEALER BUSINESS TRENDS

(FOR THE PAST 10 YEARS)

FIG. 3
NEW AND USED EQUIPMENT SALES TRENDS

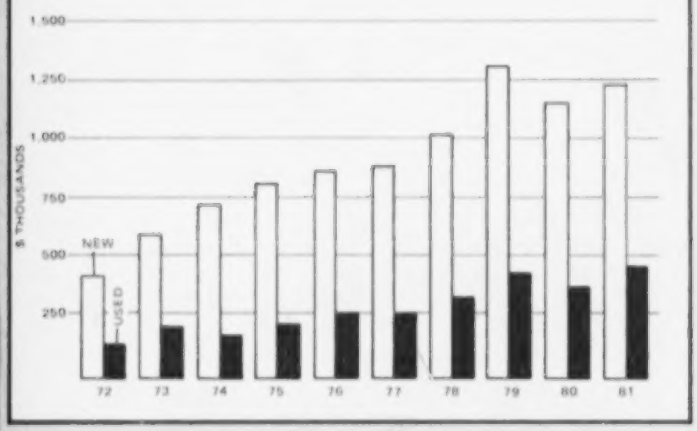


FIG. 4
PARTS–SERVICE–OTHER SALES TRENDS

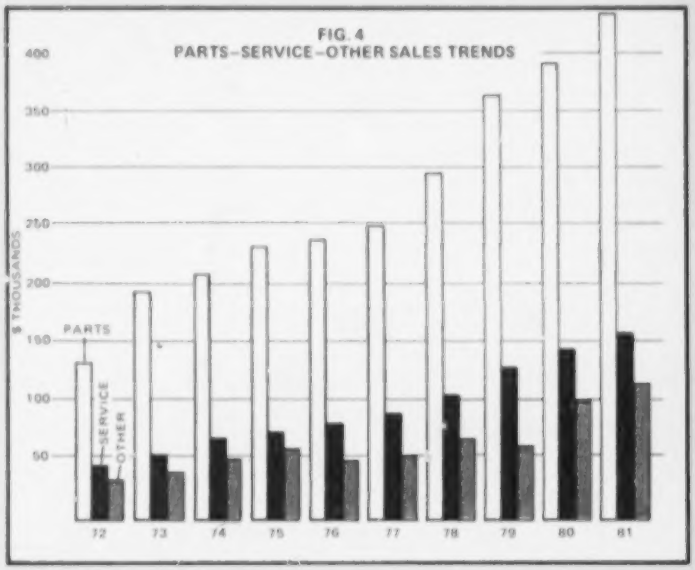


FIG. 5
NEW AND USED EQUIPMENT MARGIN TRENDS

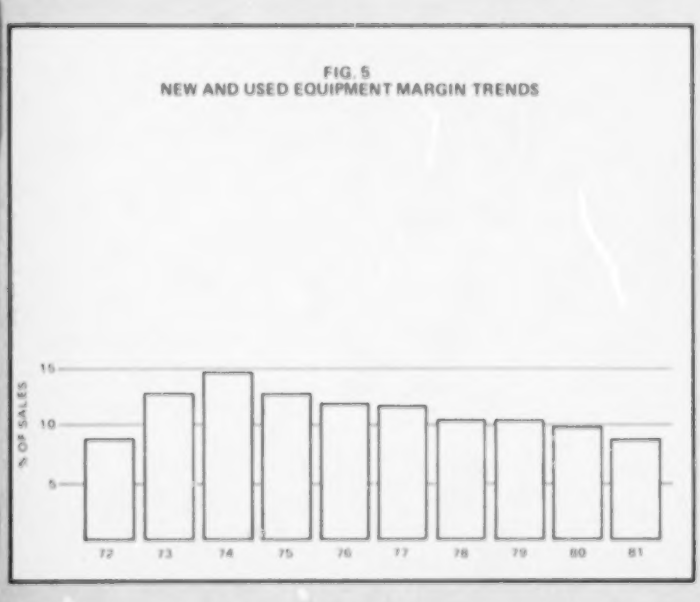
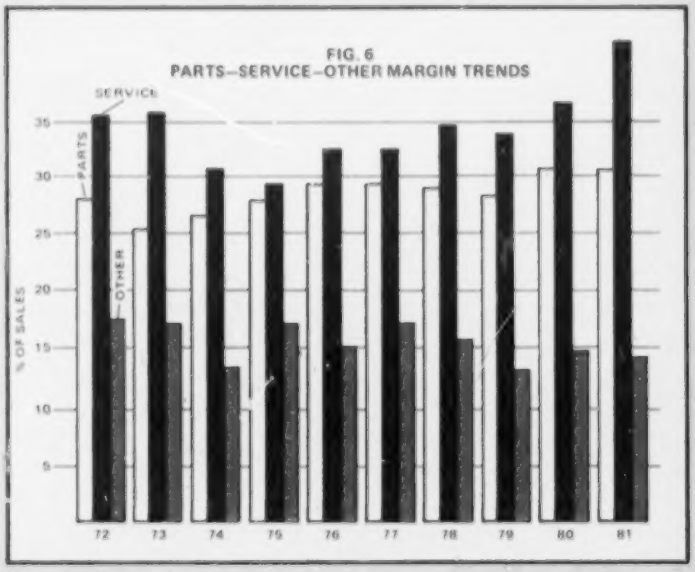


FIG. 6
PARTS–SERVICE–OTHER MARGIN TRENDS



OPERATING DATA — ALL DEALERS

OPERATING AVERAGES	AGRICULTURAL DEALERS Amount	% Sales	INDUSTRIAL DEALERS Amount	% Sales	LAWN AND GARDEN DEALERS Amount	% Sales
SALES						
New Equipment	$1,245,783	50.21	$1,085,702	46.84	$ 724,266	53.44
Used Equipment	477,616	19.25	378,628	16.34	117,357	8.66
Total New and Used	1,723,399	69.46	1,464,330	63.18	841,623	62.10
Repair Parts	450,017	18.13	478,712	20.65	297,015	21.91
Service Labor	162,327	6.55	182,314	7.87	101,056	7.46
Other Lines	124,220	5.00	126,471	5.46	108,614	8.01
Rental-Lease Income	21,151	.86	65,795	2.84	6,952	.52
TOTAL SALES	**2,481,114**	**100.00**	**2,317,622**	**100.00**	**1,355,260**	**100.00**
MARGINS						
New Equipment	116,677	9.37	125,334	11.54	118,253	16.33
Used Equipment	31,898	6.68	35,413	9.35	3,950	3.37
Total New and Used	148,575	8.62	160,747	10.98	122,203	14.52
Repair Parts	138,072	30.68	148,423	31.00	92,198	31.04
Service Labor	61,096	37.64	66,712	36.59	31,180	30.85
Other Lines	17,806	14.33	25,255	19.97	31,416	28.92
Rental-Lease Income	7,909	37.39	21,842	33.20	2,136	30.72
TOTAL OPERATING MARGIN	**373,458**	**15.05**	**422,979**	**18.25**	**279,133**	**20.60**
EXPENSES						
Salaries—Salesmen	33,149	1.33	48,331	2.08	25,989	1.91
Travel and Training	5,330	.22	6,937	.30	2,198	.16
Advertising and Promotion	15,173	.61	15,190	.66	13,384	.99
After Sales & Warranty Expense	15,875	.64	11,718	.50	3,959	.29
TOTAL SALES EXPENSE	**69,527**	**2.80**	**82,176**	**3.54**	**45,530**	**3.35**
Salaries—Officers, Owners	43,074	1.73	48,982	2.11	30,704	2.27
Salaries—Partsmen	32,103	1.30	37,858	1.64	21,377	1.58
Salaries—Office and Others	25,370	1.02	30,010	1.29	30,846	2.27
Occupancy Expense	35,273	1.42	40,224	1.74	24,384	1.80
Heat, Light, Power, Water	7,440	.30	7,759	.33	5,489	.41
Telephone and Telegraph	6,203	.25	7,433	.32	6,329	.46
Office & Store Exp., and Postage	11,999	.48	11,876	.52	9,335	.69
Shop Supplies and Expense	10,413	.42	12,415	.53	6,211	.46
Car and Truck Expense	23,870	.97	23,256	1.01	16,644	1.23
Taxes—Except Payroll & Real Estate	4,986	.20	7,683	.33	6,071	.45
Employee Benefits	31,609	1.27	44,168	1.90	22,146	1.63
Dues and Subscriptions	954	.04	1,036	.05	894	.07
Insurance—Except Group & R.E.	12,637	.51	11,485	.49	13,615	1.00
Legal and Auditing	3,678	.15	5,626	.25	3,919	.29
Interest & Bank Chgs—Except R.E.	37,996	1.53	44,258	1.91	20,604	1.52
Depreciation	14,442	.58	13,537	.58	8,686	.64
Bad Debts	4,020	.16	4,401	.9	2,298	.17
Contributions and Miscellaneous	4,807	.20	8,234	.35	2,319	.17
TOTAL EXPENSE	**380,401**	**15.33**	**442,417**	**19.08**	**277,401**	**20.46**
NET PROFIT ON SALES	**(6,943)**	**(.27)**	**(19,438)**	**(.83)**	**1,732**	**.13**
OTHER INCOME	**62,539**	**2.52**	**54,214**	**2.33**	**15,083**	**1.11**
NET OPERATING PROFIT OR LOSS -Before Income Taxes-	**55,596**	**2.25**	**34,776**	**1.50**	**16,815**	**1.24**

FINANCIAL DATA — ALL DEALERS

BALANCE SHEET AVERAGES	AGRICULTURAL DEALERS Amount	AGRICULTURAL DEALERS % Total Assets	INDUSTRIAL DEALERS Amount	INDUSTRIAL DEALERS % Total Assets	LAWN AND GARDEN DEALERS Amount	LAWN AND GARDEN DEALERS % Total Assets
ASSETS						
Cash and Securities	$ 49,763	3.38	$ 60,964	4.67	$ 37,129	5.37
Accounts and Notes Receivable	136,362	9.26	167,636	12.87	90,903	13.15
TOTAL	186,125	12.64	228,600	17.54	128,032	18.52
INVENTORIES						
New Equipment	697,462	47.38	539,461	41.40	316,482	45.79
Used Equipment	192,842	13.10	165,469	12.70	47,043	6.81
Repair Parts	167,351	11.37	137,924	10.58	102,621	14.85
Other Lines	52,025	3.53	38,895	2.99	17,931	2.59
Rental or Lease	11,149	.76	41,370	3.17	9,973	1.45
TOTAL INVENTORIES	**1,120,829**	**76.14**	**923,119**	**70.84**	**494,050**	**71.49**
TOTAL CURRENT ASSETS	**1,306,954**	**88.78**	**1,151,719**	**88.38**	**622,082**	**90.01**
Fixed Assets	117,547	7.99	111,093	8.53	54,999	7.95
Finance Reserve and Other Assets	47,522	3.23	40,246	3.09	14,040	2.04
TOTAL ASSETS	**1,472,015**	**100.00**	**1,303,058**	**100.00**	**691,121**	**100.00**
LIABILITIES AND NET WORTH						
Current Accounts Payable and Accruals	140,330		77,910		62,804	
Floor Plan Notes Payable	736,760		587,522		283,814	
Notes Payable—Bank and Other	109,589		91,811		52,228	
Mortgages and Other Long-Term	123,287		138,666		132,553	
TOTAL LIABILITIES	**1,109,966**		**895,909**		**531,399**	
Net Worth	362,049	24.60	407,149	31.25	159,722	23.11
TOTAL LIABILITIES AND NET WORTH	**1,472,015**		**1,303,058**		**691,121**	

FINANCIAL RATIOS	AGRICULTURAL DEALERS	INDUSTRIAL DEALERS	LAWN AND GARDEN DEALERS
Current Ratio	1.32 TO 1	1.52 TO 1	1.56 TO 1
Ownership Equity	24.60 %	31.25 %	23.11 %
Net Working Capital Turnover	7.75 TIMES	5.88 TIMES	6.07 TIMES
Inventory to Net Working Capital	3.50 TO 1	2.34 TO 1	2.21 TO 1
Turnover of Total Assets	1.69 TIMES	1.78 TIMES	1.96 TIMES
Return on Total Assets	3.78 %	2.67 %	2.43 %
Return on Net Worth	15.36 %	8.54 %	10.53 %

PERSONNEL DATA	AGRICULTURAL DEALERS	INDUSTRIAL DEALERS	LAWN AND GARDEN DEALERS
Average Number of Employees per Dealer	13.13	13.67	12.13
Average Total Sales per Employee	188,966	169,541	111,728
Average Total Assets per Employee	112,111	95,322	56,976
Average Number of Salesmen—Including Owners	2.94	3.27	3.06
Average New and Used Sales per Salesman	586,191	447,808	275,041
Average Number of Partsmen	2.14	2.09	1.81
Average Parts Sales per Partsman	210,289	229,049	164,097
Average Number of Servicemen	5.85	5.98	4.81
Average Service Sales per Serviceman	27,748	30,487	21,010
Average Number of Office Employees	1.63	1.84	1.88
Average Number of Other Employees	.58	.49	.56

AGRICULTURAL DEALER OPERATIONS BY SALES VOLUME SIZE

OPERATING AVERAGES	SALES UNDER 1,000,000 AVERAGE Amount	AVERAGE % Sales	HIGH PROFIT Amount	HIGH PROFIT % Sales	YOUR FIGURES Amount	YOUR FIGURES % Sales
SALES						
New Equipment	$ 322,830	47.96	$ 299,496	47.71		
Used Equipment	104,230	15.49	90,693	14.45		
Total New and Used	427,060	63.45	390,189	62.16		
Repair Parts	167,997	24.96	168,352	26.83		
Service Labor	47,361	7.04	41,201	6.56		
Other Lines	27,034	4.02	26,779	4.27		
Rental-Lease Income	3,551	.53	1,113	.18		
TOTAL SALES	**673,003**	**100.00**	**627,634**	**100.00**		
MARGINS						
New Equipment	35,180	10.90	41,105	13.72		
Used Equipment	9,482	9.10	13,325	14.69		
Total New and Used	44,662	10.46	54,430	13.95		
Repair Parts	49,549	29.49	53,285	31.65		
Service Labor	13,668	28.86	14,424	35.01		
Other Lines	4,793	17.73	6,196	23.14		
Rental-Lease Income	1,682	47.37	743	66.76		
TOTAL OPERATING MARGIN	**114,354**	**16.99**	**129,078**	**20.57**		
EXPENSES						
Salaries—Salesmen	6,730	.99	5,125	.81		
Travel and Training	1,684	.26	1,610	.26		
Advertising and Promotion	5,436	.80	5,039	.80		
After Sales & Warranty Expense	2,805	.42	2,016	.32		
TOTAL SALES EXPENSE	**16,655**	**2.47**	**13,790**	**2.19**		
Salaries—Officers, Owners	16,379	2.43	18,166	2.90		
Salaries—Partsmen	10,905	1.62	10,017	1.59		
Salaries—Office and Others	7,921	1.18	6,240	1.00		
Occupancy Expense	13,935	2.07	11,608	1.85		
Heat, Light, Power, Water	3,543	.53	3,121	.49		
Telephone and Telegraph	2,468	.36	1,839	.30		
Office and Store Exp., and Postage	3,432	.51	2,944	.47		
Shop Supplies and Expense	4,270	.64	3,043	.48		
Car and Truck Expense	8,531	1.27	7,130	1.14		
Taxes—Except Payroll & Real Estate	2,559	.38	1,874	.29		
Employee Benefits	9,607	1.42	8,194	1.31		
Dues and Subscriptions	531	.08	524	.08		
Insurance—Except Group & R.E.	6,062	.90	5,005	.80		
Legal and Auditing	1,472	.22	1,201	.19		
Interest & Bank Chgs—Except [illegible]	16,790	2.50	9,276	1.48		
Depreciation	5,252	.78	4,289	.68		
Bad Debts	1,066	.16	1,058	.17		
Contributions and Miscellaneous	1,132	.16	741	.12		
TOTAL EXPENSE	**132,510**	**19.68**	**110,060**	**17.53**		
NET PROFIT ON SALES	**(18,156)**	**(2.69)**	**19,018**	**3.03**		
OTHER INCOME	**18,243**	**2.71**	**23,789**	**3.79**		
NET OPERATING PROFIT OR LOSS –Before Income Taxes–	**87**	**0.02**	**42,807**	**6.82**		

SALES $1,000,000 TO $2,000,000				SALES $2,000,000 TO $3,000,000				SALES OVER $3,000,000			
AVERAGE		HIGH PROFIT		AVERAGE		HIGH PROFIT		AVERAGE		HIGH PROFIT	
Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
$ 753,125	50.44	$ 730,880	49.33	$1,257,696	50.34	$1,282,196	51.19	$2,420,581	50.28	$2,519,994	52.50
263,543	17.66	243,132	16.42	477,896	19.13	454,428	18.14	973,029	20.22	868,696	18.10
1,016,668	68.10	974,012	65.75	1,735,592	69.47	1,736,624	69.33	3,393,610	70.50	3,388,690	70.60
305,112	20.44	325,071	21.94	459,442	18.39	466,603	18.63	798,292	16.58	879,738	18.33
96,996	6.50	86,154	5.82	167,039	6.68	174,683	6.97	310,764	6.46	314,075	6.54
67,404	4.51	92,518	6.24	118,891	4.76	102,782	4.10	258,432	5.37	174,198	3.63
6,636	.45	3,600	.25	17,314	.70	24,051	.97	52,392	1.09	43,021	.90
1,492,816	**100.00**	**1,481,355**	**100.00**	**2,495,278**	**100.00**	**2,504,743**	**100.00**	**4,813,490**	**100.00**	**4,799,722**	**100.00**
79,210	10.52	100,053	13.69	108,888	8.66	132,123	10.30	220,141	9.09	286,626	11.37
18,771	7.12	19,599	8.06	25,966	5.43	41,541	9.14	66,379	6.82	79,774	9.18
97,981	9.64	119,652	12.28	134,854	7.77	173,664	10.00	286,520	8.44	366,400	10.81
93,688	30.71	103,546	31.85	141,590	30.82	148,356	31.79	245,727	30.78	278,075	31.61
32,486	33.49	27,665	32.11	63,437	37.98	64,070	36.68	123,919	39.88	133,801	42.60
9,345	13.86	18,395	19.88	16,976	14.28	15,743	15.32	36,834	14.25	26,965	15.48
2,900	43.70	2,540	70.56	7,069	40.83	12,196	50.71	18,434	35.18	18,028	41.91
236,400	**15.84**	**271,798**	**18.35**	**363,926**	**14.57**	**414,029**	**16.53**	**711,434**	**14.78**	**823,269**	**17.15**
18,811	1.26	18,001	1.21	32,021	1.28	30,862	1.23	68,139	1.41	64,353	1.34
3,717	.24	3,413	.23	5,558	.22	4,860	.19	9,457	.20	8,341	.17
10,155	.68	9,847	.67	15,834	.63	14,227	.57	26,966	.56	23,712	.49
7,885	.53	5,211	.35	15,609	.63	12,707	.51	33,984	.70	28,384	.59
40,568	**2.71**	**36,472**	**2.46**	**69,022**	**2.76**	**62,656**	**2.50**	**138,546**	**2.87**	**124,790**	**2.59**
28,918	1.94	29,191	1.97	44,317	1.77	52,452	2.09	76,278	1.59	72,050	1.51
21,121	1.41	21,165	1.43	33,276	1.33	29,251	1.17	58,039	1.20	63,177	1.31
17,101	1.15	17,333	1.17	27,499	1.10	20,410	.81	44,976	.94	40,125	.84
23,865	1.60	21,183	1.43	34,955	1.40	35,655	1.43	62,894	1.30	61,859	1.29
5,360	.36	5,065	.34	8,046	.33	6,990	.28	11,988	.25	10,488	.22
4,309	.29	3,941	.26	6,276	.25	5,487	.21	10,825	.23	9,596	.20
7,726	.51	6,729	.46	12,146	.48	8,874	.36	22,536	.47	21,060	.43
6,584	.45	6,152	.41	10,273	.41	10,119	.40	19,018	.39	21,409	.45
15,295	1.02	13,581	.92	23,307	.94	21,946	.88	44,400	.92	42,598	.89
3,665	.25	4,269	.29	5,152	.20	6,126	.24	8,005	.17	6,708	.14
19,702	1.31	17,096	1.15	33,432	1.34	30,300	1.21	58,655	1.22	55,752	1.16
688	.05	627	.05	989	.04	782	.03	1,514	.03	1,486	.03
9,233	.62	8,017	.54	13,687	.55	9,624	.39	20,168	.42	18,555	.39
2,785	.19	2,292	.15	3,658	.15	3,336	.13	6,199	.13	5,206	.11
26,989	1.80	12,273	.83	41,599	1.66	24,569	.98	62,156	1.29	43,682	.91
8,700	.59	7,359	.50	14,341	.57	11,299	.45	27,254	.57	21,345	.44
2,964	.20	2,584	.17	3,555	.15	2,825	.12	7,563	.15	6,919	.14
2,029	.13	1,797	.12	4,983	.20	3,690	.14	10,314	.22	6,678	.14
247,602	**16.58**	**217,126**	**14.65**	**390,513**	**15.63**	**346,391**	**13.82**	**691,328**	**14.36**	**633,483**	**13.19**
(11,202)	**(.75)**	**54,672**	**3.69**	**(26,587)**	**(1.06)**	**67,638**	**2.70**	**20,106**	**.42**	**189,786**	**3.95**
39,006	**2.61**	**46,776**	**3.15**	**62,868**	**2.51**	**69,433**	**2.77**	**118,974**	**2.47**	**158,999**	**3.31**
27,804	**1.86**	**101,448**	**6.84**	**36,281**	**1.45**	**137,071**	**5.47**	**139,080**	**2.89**	**348,785**	**7.26**

AGRICULTURAL DEALER BALANCE SHEETS BY SALES VOLUME SIZE

BALANCE SHEET AVERAGES	SALES UNDER $1,000,000 AVERAGE Amount	% Total Assets	HIGH PROFIT Amount	% Total Assets	YOUR FIGURES Amount	% Total Assets
ASSETS						
Cash and Securities	$ 21,923	3.96	$ 33,650	6.17		
Accounts and Notes Receivable	41,818	7.57	43,025	7.89		
TOTAL	63,741	11.53	76,675	14.06		
INVENTORIES						
New Equipment	267,244	48.37	265,911	48.78		
Used Equipment	59,496	10.77	47,554	8.73		
Repair Parts	77,150	13.96	68,630	12.59		
Other Lines	21,340	3.86	19,671	3.61		
Rental or Lease	1,888	.34	1,905	.35		
TOTAL INVENTORIES	**427,118**	**77.30**	**403,671**	**74.06**		
TOTAL CURRENT ASSETS	**490,859**	**88.83**	**480,346**	**88.12**		
Fixed Assets	51,614	9.35	48,118	8.82		
Finance Reserve and Other Assets	10,053	1.82	16,637	3.06		
TOTAL ASSETS	**552,526**	**100.00**	**545,101**	**100.00**		
LIABILITIES AND NET WORTH						
Current Accounts Payable and Accruals	48,923		27,321			
Floor Plan Notes Payable	250,165		244,369			
Notes Payable—Bank and Other	51,314		34,503			
Mortgages and Other Long-Term	59,867		27,245			
TOTAL LIABILITIES	**410,269**		**333,438**			
Net Worth	142,257	25.75	211,663	38.83		
TOTAL LIABILITIES AND NET WORTH	**552,526**		**545,101**			

INVENTORY TURNOVER	Amount	Times Turn	Amount	Times Turn		
New Equipment	267,244	1.08	265,911	.97		
Used Equipment	59,496	1.59	47,554	1.63		
Repair Parts	77,150	1.54	68,630	1.68		
Other Lines	21,340	1.04	19,671	1.05		
Rental or Lease	1,888	.99	1,905	.19		
TOTAL INVENTORIES	**427,118**	**1.23**	**403,671**	**1.17**		

SALES $1,000,000 TO $2,000,000				SALES $2,000,000 TO $3,000,000				SALES OVER $3,000,000			
AVERAGE		HIGH PROFIT		AVERAGE		HIGH PROFIT		AVERAGE		HIGH PROFIT	
Amount	% Total Assets	Amount	% Total Assets	Amount	% Total Assets	Amount	% Total Assets	Amount	% Total Assets	Amount	% Total Assets
$ 33,216	3.34	$ 69,139	7.58	$ 49,060	3.32	$ 89,492	5.98	$ 87,906	3.33	$ 143,344	5.40
79,128	7.98	80,031	8.77	134,085	9.11	126,858	8.49	266,990	10.12	301,449	11.36
112,344	11.32	149,170	16.35	183,145	12.43	216,350	14.47	354,896	13.45	444,790	16.78
494,903	49.89	410,551	45.02	719,681	48.84	710,585	47.56	1,201,924	45.56	1,190,898	44.94
129,017	13.01	106,809	11.71	191,048	12.97	179,851	12.04	356,843	13.53	317,832	11.99
121,179	12.21	108,060	11.85	173,660	11.78	173,696	11.62	276,095	10.46	281,783	10.64
35,804	3.61	40,376	4.43	44,730	3.04	41,304	2.77	96,626	3.67	60,048	2.26
4,602	.47	1,291	.14	9,458	.64	5,919	.39	26,104	.99	24,854	.94
785,505	**79.19**	**667,087**	**73.15**	**1,138,577**	**77.27**	**1,111,355**	**74.38**	**1,957,592**	**74.21**	**1,875,415**	**70.77**
897,849	**90.51**	**816,257**	**89.50**	**1,321,722**	**89.70**	**1,327,705**	**88.85**	**2,312,488**	**87.66**	**2,320,205**	**87.55**
75,122	7.57	79,905	8.76	110,496	7.50	126,359	8.46	215,528	8.18	232,606	8.78
19,013	1.92	15,835	1.74	41,164	2.80	40,107	2.69	109,968	4.16	97,215	3.67
991,984	**100.00**	**911,997**	**100.00**	**1,473,382**	**100.00**	**1,494,171**	**100.00**	**2,637,984**	**100.00**	**2,650,026**	**100.00**
82,488		73,071		126,644		109,270		278,016		251,243	
495,416		406,556		756,199		760,718		1,325,457		1,248,045	
79,943		37,035		113,005		45,126		180,125		164,840	
93,761		51,863		125,861		118,219		197,796		152,723	
751,608		**568,525**		**1,121,709**		**1,033,283**		**1,981,394**		**1,816,851**	
240,376	24.23	343,472	37.66	351,673	23.87	460,888	30.85	656,590	24.89	833,175	31.44
991,984		**911,997**		**1,473,382**		**1,494,171**		**2,637,984**		**2,650,026**	

Amount	Times Turn	Amount	Times Turn	Amount	Times Turn	Amount	Times Turn	Amount	Times Turn	Amount	Times Turn
494,903	1.36	410,551	1.54	719,681	1.60	710,585	1.62	1,201,924	1.83	1,190,898	1.88
129,017	1.90	106,809	2.09	191,048	2.37	179,851	2.30	356,843	2.54	317,832	2.48
121,179	1.74	108,060	2.05	173,660	1.83	173,696	1.83	276,095	2.00	281,783	2.14
35,804	1.62	40,376	1.84	44,730	2.28	41,304	2.11	96,626	2.29	60,048	2.45
4,602	.81	1,291	.82	9,458	1.08	5,919	2.00	26,104	1.30	24,854	1.01
785,505	**1.52**	**667,087**	**1.73**	**1,138,577**	**1.78**	**1,111,355**	**1.78**	**1,957,592**	**2.00**	**1,875,415**	**2.02**

AGRICULTURAL DEALER FINANCIAL RATIOS AND PERSONNEL DATA BY SALES VOLUME SIZE

FINANCIAL RATIOS	SALES UNDER $1,000,000 AVERAGE	HIGH PROFIT	YOUR FIGURES
Current Ratio	1.40 TO 1	1.57 TO 1	
Ownership Equity	25.75 %	38.83 %	
Net Working Capital Turnover	4.79 TIMES	3.60 TIMES	
Inventory to Net Working Capital	3.04 TO 1	2.32 TO 1	
Turnover of Total Assets	1.22 TIMES	1.15 TIMES	
Return on Total Assets	.02 %	7.85 %	
Return on Net Worth	.06 %	20.22 %	

PERSONNEL DATA	SALES UNDER $1,000,000 AVERAGE	HIGH PROFIT	YOUR FIGURES
Average Number of Employees per Dealer	6.39	6.15	
Average Total Sales per Employee	105,322	102,055	
Average Total Assets per Employee	86,467	88,634	
Average Number of Salesmen—Including Owners	1.73	1.75	
Average New and Used Sales per Salesman	246,856	222,965	
Average Number of Partsmen	1.05	1.13	
Average Parts Sales per Partsman	159,998	148,984	
Average Number of Servicemen	2.36	2.15	
Average Service Sales per Serviceman	20,069	19,104	
Average Number of Office Employees	.97	.92	
Average Number of Other Employees	.27	.21	
Average Hourly Wage—Top Mechanic	6.66	6.71	
Average Hourly Wage—Regular Mechanic	5.25	5.31	
Average Hourly Customer Shop Rate	17.95	17.58	
Average Hourly Internal Shop Rate	14.94	15.19	
Service Shop Open—Average Hours Per Week	43.94	43.80	

COMPUTER ACCOUNTING SYSTEM

Fast, accurate computerized record keeping services provide important financial information every dealer needs. Complete service includes preparation of monthly financial statements, general ledger, customer statements, weekly journal listings, receivables age analysis, plus periodic cost of doing business reports. Input to NFPEDA's computer accounting system is either by mail or by electronic terminal communications.

SALES $1,000,000 TO $2,000,000		SALES $2,000,000 TO $3,000,000		SALES OVER $3,000,000	
AVERAGE	HIGH PROFIT	AVERAGE	HIGH PROFIT	AVERAGE	HIGH PROFIT
1.36 TO 1	1.58 TO 1	1.33 TO 1	1.45 TO 1	1.30 TO 1	1.39 TO 1
24.23 %	37.66 %	23.87 %	30.85 %	24.89 %	31.44 %
6.22 TIMES	4.94 TIMES	7.67 TIMES	6.07 TIMES	9.10 TIMES	7.32 TIMES
3.27 TO 1	2.23 TO 1	3.49 TO 1	2.69 TO 1	3.70 TO 1	2.86 TO 1
1.50 TIMES	1.62 TIMES	1.70 TIMES	1.68 TIMES	1.82 TIMES	1.81 TIMES
2.80 %	11.12 %	2.46 %	9.17 %	5.27 %	13.16 %
11.57 %	29.54 %	10.32 %	29.74 %	21.18 %	41.86 %

SALES $1,000,000 TO $2,000,000		SALES $2,000,000 TO $3,000,000		SALES OVER $3,000,000	
AVERAGE	HIGH PROFIT	AVERAGE	HIGH PROFIT	AVERAGE	HIGH PROFIT
9.95	10.08	13.43	12.93	20.04	20.89
150,032	146,960	186,022	193,716	240,194	229,762
99,697	90,476	109,708	115,558	131,636	126,856
2.38	2.43	2.90	2.83	4.23	4.14
427,172	400,828	598,480	613,648	802,272	818,524
1.60	1.71	2.17	2.24	3.28	3.64
190,695	190,101	211,725	208,305	243,382	241,687
4.25	4.16	6.07	5.92	9.32	9.91
22,823	20,710	27,519	29,507	33,344	31,693
1.35	1.24	1.64	1.51	2.27	2.39
.37	.53	.64	.44	.92	.82
7.18	7.11	7.72	8.27	8.35	8.70
5.86	5.81	6.29	6.77	6.63	6.80
18.59	18.27	20.23	20.16	21.66	22.38
16.20	16.01	17.68	17.99	18.96	19.24
45.74	45.57	46.05	45.82	46.62	45.86

PARTS INVENTORY CONTROL SYSTEM

More and more dealers are adopting NFPEDA's easy-to-use computerized pad system to replace their card files—saving up to 70% of the time used in running the card system, and reaping many other benefits. NFPEDA's computer system features automatic order based on YOUR sales history and seasonal needs. Other special features include three years of your sales history on each part number and multiple store cross referencing. It pays special attention to non-stock and other unusual activity and enables you to keep your finger on all parts activity for best service to customers with the lowest possible investment in inventory. Input to NFPEDA's parts system is either by mail or by electronic terminal communications.

AGRICULTURAL DEALER OPERATIONS BY GEOGRAPHIC REGION

OPERATING AVERAGES	EASTERN REGION Amount	EASTERN REGION % Sales	CENTRAL REGION Amount	CENTRAL REGION % Sales	WESTERN REGION Amount	WESTERN REGION % Sales
SALES						
New Equipment	$1 001,855	47.20	$1,241,731	50.99	$1,436,975	50.48
Used Equipment	320,390	15.10	507,822	20.86	538,879	18.94
Total New and Used	1,322,245	62.30	1,749,553	71.85	1,975 854	69.42
Repair Parts	469,163	22.10	405,868	16.66	523,808	18.40
Service Labor	155,685	7.34	156,761	6.44	178,838	6.28
Other Lines	146,486	6.90	104,881	4.31	145,489	5.12
Rental-Lease Income	28,718	1.36	17,896	.74	22,171	.78
TOTAL SALES	**2,122,297**	**100.00**	**2,434,959**	**100.00**	**2,846,160**	**100.00**
MARGINS						
New Equipment	112,904	11.27	103,065	8.30	145,514	10.13
Used Equipment	15,318	4.78	32,594	6.42	42,488	7.88
Total New and Used	128,222	9.70	135,659	7.75	188,002	9.51
Repair Parts	143,126	30.51	124,705	30.73	161,030	30.74
Service Labor	53,303	34.24	60,030	38.29	69.023	38.60
Other Lines	23,198	15.84	14,306	13.64	20,491	14.08
Rental-Lease Income	8,747	30.46	7,028	39.27	9,109	41.09
TOTAL OPERATING MARGIN	**356,596**	**16.80**	**341,728**	**14.03**	**447,655**	**15.73**
EXPENSES						
Salaries—Salesmen	32,730	1.54	29,783	1.22	39,998	1.40
Travel and Training	5,352	.25	4,749	.19	6,510	.23
Advertising and Promotion	13,448	.63	14,807	.61	17,114	.60
After Sales & Warranty Expense	13,516	.64	15,104	.62	19,372	.68
TOTAL SALES EXPENSE	**65,046**	**3.06**	**64,443**	**2.64**	**82,994**	**2.91**
Salaries—Officers, Owners	38,525	1.82	42,197	1.73	48,329	1.70
Salaries—Partsmen	29,982	1.41	30,084	1.24	37,758	1.33
Salaries—Office and Others	27,805	1.31	22,135	.91	29,729	1.04
Occupancy Expense	29,133	1.37	34,999	1.44	40,681	1.43
Heat, Light, Power, Water	7,885	.37	7,400	.30	7,190	.25
Telephone and Telegraph	6,651	.32	5,720	.24	6,816	.24
Office & Store Exp., and Postage	13,915	.65	10,744	.44	13,224	.47
Shop Supplies and Expense	10,441	.49	9,439	.38	12,094	.42
Car and Truck Expense	24,080	1.14	22,819	.94	25,778	.91
Taxes—Except Payroll & Real Estate	6,152	.29	4,359	.18	5,257	.18
Employee Benefits	29,863	1.40	30,874	1.27	34,430	1.21
Dues and Subscriptions	962	.05	869	.03	1,118	.04
Insurance—Except Group & R.E.	12,209	.58	13,098	.54	12,130	.43
Legal and Auditing	3,744	.17	3,479	.14	3,963	.14
Interest & Bank Chgs—Except R.E.	40,474	1.91	35,466	1.46	41,164	1.44
Depreciation	12,126	.57	12,961	.53	18,901	.67
Bad Debts	7,213	.34	2,806	.12	3,914	.13
Contributions and Miscellaneous	3,689	.17	4,927	.20	5,281	.19
TOTAL EXPENSE	**369,895**	**17.42**	**358,819**	**14.73**	**430,751**	**15.13**
NET PROFIT ON SALES	**(13,299)**	**(.62)**	**(17,091)**	**(.70)**	**16,904**	**.59**
OTHER INCOME	**58,676**	**2.76**	**60,256**	**2.47**	**70,516**	**2.47**
NET OPERATING PROFIT OR LOSS –Before Income Taxes–	**45,377**	**2.14**	**43,165**	**1.77**	**87,420**	**3.06**

TEN IMPORTANT FINANCIAL AND OPERATING RATIOS

Financial records, carefully maintained, provide dealers with the only sound measuring device for business success. They help to measure the ability of their business to generate profits and to meet claims against it. They provide the basis, also, for isolating the business' strengths and weaknesses and may, through analysis, suggest how best to plan for profits and to maintain solvency.

With this in mind, the following ratios have been developed from year-end operating statements and balance sheets submitted by dealers in the current studies. Dealers having adequate records will find comparison of these ratios most revealing and helpful.

CURRENT RATIO

Figure by dividing Current Assets by Current Liabilities.

This ratio compares the total of cash and the items which will be converted into cash, with debts which must be paid soon. Thus, the ratio reflects ability to handle current debts.

A ratio of 2.00 to 1 ($2.00 of Current Assets for each $1.00 of Current Liabilities) is considered satisfactory. When the ratio falls below 2.00 to 1, creditors have a greater interest in Current Assets than the owner.

EMPLOYEE STUDIES

In the space provided on page 12, enter the number of employees in each category as applicable for your business. Then calculate the average sales per employee by dividing the applicable sales amount by the number of employees for each category.

Comparison of your sales per employee in each category to the averages is the first step in measuring employee efficiency. The next step is to compare your current year figures to previous years.

OWNERSHIP EQUITY

Figure by dividing Net Worth by Total Assets.

Ownership Equity is shown on the "Net Worth" line of the balance sheet in the column headed "% Total Assets".

This ratio shows how much of the business is proprietor-owned; and conversely, by subtracting the percentage from 100 percent, it shows how much of the business is financed by outside capital (creditors).

When Net Worth is less than 50 percent of Total Assets, creditors have a greater interest in the assets than proprietors.

RECEIVABLES TURNOVER

Figure by dividing the total of Repair Parts and Service Sales by Accounts Receivable.

The turnover rate is meaningful when customer receivables are related to the corresponding customer sales of the dealership. Since internal sales of parts and labor have not been separated from customer sales in this survey, turnover is not calculated.

This ratio shows whether or not receivables are in proportion to amount of business transacted and might be used every month to good advantage. Divide sales year-to-date by receivables and compare with ratio for same period in past two or three years. Unfavorable trends can thus be detected.

NET WORKING CAPITAL TURNOVER

Net Working Capital is determined by subtracting Current Liabilities from Current Assets.

Rate of turnover is figured by dividing Sales by Net Working Capital.

How many times Net Working Capital turns over in a year in Sales is a good measure of activity for any business. It is a sensitive indicator of overtrading or undertrading; and as such, it is a good test of the adequacy of Net Working Capital for the scale of operations of the firm.

When this ratio is too high, it will usually be found that the dealership is short of cash and heavy on receivables and paid-for inventory. This situation promotes borrowing or sale of equipment at a loss to meet payroll and other fixed obligations. When it is too low, inefficient use of capital in the dealership is indicated. It is usually attended by a pile-up of receivables or inventory or cash, or a combination of these, in excess of the needs of the business.

INVENTORY TO NET WORKING CAPITAL

Figure by dividing Inventory by Net Working Capital.

This ratio for most dealers in the farm and power equipment industry is extremely high because first, inventories are characteristically heavy and represent a major portion of Total Current Assets; and second, because of the heavy financing of whole goods.

In most other retail lines, inventory requirements are relatively smaller and supplier credit terms are shorter.

TURNOVER OF TOTAL ASSETS

Figure by dividing Sales by Total Assets.

The importance of this ratio is illustrated in the question of why a dealership with $750,000 of Total Assets achieves Total Sales of $1,500,000 while another with an equal amount of assets achieves a Total Sales volume of only $1,000,000. The first would seem to be more efficient in its use of assets.

However, a high rate of turnover is not necessarily the key to profits. As in the ratio, Sales to Net Working Capital, high turnover may be an indicator of inadequate capital in relation to sales volume. Also, high usage of rental property by a dealer usually results in a high rate of turnover.

RETURN ON ASSETS

Figure by dividing Net Profit by Total Assets.

This ratio, too, is an important test of operating efficiency. It is a test of the quality of management in the utilization of the assets in the business. It lays aside all problems related to the source of funds, whether such funds are obtained from capital investment, borrowings, or purchases on credit. It shows the return on total capital invested in the business (owner capital plus outside capital), which is represented by Total Assets.

RETURN ON NET WORTH

Figure by dividing Net Profit by Net Worth.

In using this ratio, it is important that a fair salary for the owner be included in operating expenses of the business. The owner's time is certainly worth something; therefore, all Net Profit ratios should be based upon the profit *after* this salary is paid or taken into consideration in the figuring. Adequacy of profit must be measured in the light of current returns on money in the investment market, as well as compensation for risk.

INVENTORY TURNOVER

Figure by dividing Cost of Sales by Inventory.

Cost of Sales figures are not reported in this study but may be figured, if needed, by subtracting Margin from the corresponding Sales.

This ratio shows the number of times Inventory is bought and sold during the year, reflected in "turnover" in the balance sheet studies.

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